

IRS



Fact Sheet

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2003 Tax Changes: Individuals

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(Corrected – 1/8/04)

Individual taxpayers will generally find their 2003 taxes are lower, thanks to various laws enacted in recent years.

Tax Rates / Standard Deduction

- The **10% rate** applies to taxable income up to \$7,000 (\$14,000 if married filing jointly or a qualifying widow(er)). It remains at \$10,000 for a head of household.
- The **15% rate** for joint filers and qualifying widow(er)s tops out at \$56,800 of taxable income — twice the level for single persons.
- **Tax rates above 15%** are now 25%, 28%, 33% and 35%, a drop of two percentage points (3.6 points for the top rate).
- The **standard deduction** for joint filers and qualified widow(er)s — not counting additional amounts for age or blindness — is now \$9,500, twice that of a single filer or a married person filing separately.

Capital Gains and Qualified Dividends

- For both the regular and the alternative minimum tax, the top tax rate for **net capital gains** on sales and other qualified dispositions (including installment payments received) after May 5, 2003, is generally 15% (5% for gains that would otherwise be taxed at a regular rate of 10% or 15%). The top rates on certain depreciable real property and collectibles remain at 25% and 28%, respectively.
- The same 5% and 15% maximum rates apply to most **dividends** paid after 2002 on a domestic or qualified foreign corporation's stock that the taxpayer owns for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date. Form 1099-DIV will show the amount of qualified dividends, but the taxpayer must determine whether the holding period is met.
- The 8% rate for **qualified 5-year gain** does not apply to sales and other qualified dispositions (including installment payments received) after May 5, 2003.

Tax Credits

- The **Child Tax Credit** is a maximum of \$1,000 per child, a \$400 increase. Most taxpayers using this credit got an advance payment of this increase during 2003 and must subtract that advance when figuring their 2003 credit amount.
- Up to \$3,000 of expenses may be used to figure the **Child and Dependent Care Credit** — \$6,000 for two or more qualifying persons. The credit percentage may be as high as 35%, for those with adjusted gross income (AGI) up to \$15,000. The credit phases down to 20% when a taxpayer's AGI exceeds \$43,000.
- Up to \$10,000 of higher education expenses may be used to figure the **Lifetime Learning Credit**, doubling the maximum credit amount to \$2,000.
- Qualifying taxpayers may now apply for an advance of the **Health Coverage Tax Credit** to help pay their monthly insurance premiums. This credit is for certain workers who lost jobs due to the effects of international trade and for those age 55 or over who received benefits from the Pension Benefit Guaranty Corporation.
- Inflation adjustments raised the maximum **Adoption Credit** amount to \$10,160, and the beginning of the phaseout range to \$152,390 of modified AGI. The maximum credit (subject to income and tax liability limits) is allowed for adoption of a special needs child, regardless of the actual expenses, in the year the adoption becomes final.

Retirement Plans / Individual Retirement Arrangements

- The **elective deferral limit** for 401(k), 403(b) and 457 plans rose to \$12,000 in 2003. For SIMPLE plans, the limit rose to \$8,000.
- The **catch-up contribution limit** for persons age 50 or older rose to \$2,000 for 401(k), 403(b) and 457 plans and to \$1,000 for SIMPLE plans.
- The \$10,000 phaseout range for **IRA deductions** for those covered by a pension plan begins at income of \$40,000 (\$60,000 if married filing jointly or a qualifying widow(er)). It remains at zero for married persons filing separately.

Military Personnel

- The tax-free portion of the **death gratuity** paid to U.S. military survivors for deaths after Sept. 10, 2001, increased from \$3,000 to \$12,000.
- National Guard and Reserve members may claim an above-the-line deduction for **unreimbursed overnight travel expenses** to attend drills or meetings more than 100 miles from home.

- Taxpayers may choose to disregard up to 10 years of qualified official extended duty in the U.S. Armed Services, Foreign Service, or the commissioned corps of the National Oceanic and Atmospheric Administration or the Public Health Service, when using the 5-year ownership-and-use test related to excluding **gain on a home sale**. Applies when the duty station is at least 50 miles from the residence – or while the person is residing under orders in government housing – for a period of more than 90 days or for an indefinite period. Retroactive to home sales or exchanges after May 6, 1997. Qualifying taxpayers have until Nov. 10, 2004, to file amended returns for years that would otherwise be barred by the statute of limitations – generally, those before 2001.
- Amounts paid after Nov. 11, 2003, under the Defense Department's **Homeowners Assistance Program** to offset the adverse effect of base closings or realignments are a nontaxable fringe benefit.
- **Extensions to file or pay taxes** that apply to Combat Zone personnel also apply to those in Contingency Operations.
- The **10% tax** on a qualified tuition program or Coverdell ESA distribution does not apply to attendees of the five military academies, to the extent the distribution does not exceed the costs of advanced education at the academy.
- **Dependent care assistance programs** for the uniformed services are tax-free benefits.

Miscellaneous Items

- Self-employed persons may deduct the full amount of **health insurance premiums** for each month they qualify (up to the amount of their earned income from the business under which the insurance plan was established).
- The **standard mileage rate** for business purposes dropped to 36 cents per mile. For medical or moving purposes, it is 12 cents per mile.
- The **Alternative Minimum Tax exemption amount** rose to \$40,250 (\$58,000 if married filing jointly or qualifying widow(er); \$29,000 if married filing separately).
- Taxpayers whose 2002 AGI was over \$150,000 may avoid an **estimated tax penalty** if their payments totaled at least 110% of their 2002 tax and were made on time.
- Taxpayers involved in certain types of **tax shelter and other reportable transactions**, directly or indirectly, must report their activity on Form 8886.

IRS Publication 553, Highlights of 2003 Tax Changes, will have more details on all of the new provisions. It will be available in late February 2004 through the IRS Web site, www.irs.gov, or by calling (toll-free) 1-800-TAX-FORM (1-800-829-3676).

Inflation Adjustments for 2003

The filing requirements, personal exemption, standard deduction and maximum Earned Income Tax Credit amounts are adjusted each year for inflation.

- The 2003 gross income **filing requirements** are:

Single	\$ 7,800
Head of household	\$ 10,050
Married filing jointly	\$ 15,600
Married filing separately	\$ 3,050
Qualifying widow(er)	\$ 12,550

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations that require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

- The **personal exemption** amount for 2003 is \$3,050 — \$50 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 139,500
Head of household	\$ 174,400
Married filing jointly or Qualifying widow(er) . . .	\$ 209,250
Married filing separately	\$ 104,625

These taxpayers use a worksheet in the tax package to figure their deduction for exemptions.

- The **standard deduction** amounts for 2003 are:

Single or Married Filing Separately	\$ 4,750
Head of household	\$ 7,000
Married filing jointly or Qualifying widow(er) . . .	\$ 9,500

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Tax Credit** amounts for 2003 are:

<u>Qualifying child</u>	<u>Income Under*</u>	<u>Max. Credit</u>	<u>Income for Max. Credit</u>
One	\$ 29,666	\$ 2,547	\$ 7,450 — 13,750*
Two or more . .	\$ 33,692	\$ 4,204	\$10,500 — 13,750*
None	\$ 11,230	\$ 382	\$ 4,950 — 6,250*

(*These amounts are \$1,000 higher for married persons filing joint returns.)

The maximum amount of investment income a person may have and still be eligible for the Earned Income Tax Credit increased to \$2,600.